漢坤律師事務所
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# Newsletter


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## Insights & Ideas



## Legal Updates

**A General Overview on Proposed Rules in China (Shanghai) Free Trade Zone (Authors: Kelvin GAO, Shu WANG, Lynn TENG)**

On August 22, 2013, the State Council of the People's Republic of China officially approved the establishment of the China (Shanghai) Free Trade Zone (the "FTZ").[1] Meanwhile, in order to facilitate the smooth implementation of the reform measures in the FTZ, the Standing Committee of the National People's Congress issued the *Decision on Authorizing the State Council to Temporarily Adjust the Administrative Examination and Approval of Relevant Laws in the China (Shanghai) Free Trade Zone* (the "Decision") on August 30, 2013, which officially authorizes the State Council to suspend several examination and approvals items with respect to foreign invested enterprises (the "FIEs") as provided under the *PRC Law on Wholly Foreign-owned Enterprises*, the *PRC Law on Sino-foreign Equity Joint Ventures* and the *PRC Law on Sino-foreign Contractual Joint Ventures*.

Although the "General Plan of the China (Shanghai) Free Trade Zone" has yet to be promulgated (excluding the Decision above), we set out below a summary of the proposed rules and regulations to be adopted in the FTZ based on a selection of publicly available press releases for your reference. Please kindly note that this article is only a summary illustrating the relevant rules and regulations which might be implemented in the FTZ. The policies to be ultimately adopted in the FTZ shall be subject to the laws and regulations to be officially stipulated.

Based on the information currently available to the public, the new rules to be implemented in the FTZ will generally consist of the following aspects:

**Strengthen Financial System Reform and Innovation**

The core innovation policy of the FTZ will be reform of the financial system. By categorizing and summarizing the relevant news reports, we are able to make the following conclusions in regard to financial reform in the FTZ:

(a) to liberalize the interest rates in the financial market and to no longer impose restrictions on the interest rates of deposits and loans, which will be completely determined by the market;

(b) provided that the risk is under control, to realize the free convertibility of Renminbi capital account and Renminbi cross-border pilot programs; to explore the internationally oriented reform pilot programs of foreign exchange administration; and to establish a foreign exchange

[1] It is reported that the FTZ contains four existing customs surveillance areas (i.e., Shanghai Waigaoqiao Bonded Zone, Shanghai Waigaoqiao Bonded Logistics Park, Yangshan Port Bonded Zone and Pudong Airport Comprehensive Bonded Zone).

administration system which will adapt to the FTZ;

(c) to allow foreign invested banks to set up subsidiaries and branches as well as to establish Sino-foreign joint venture banks with domestic banks, which may be no longer subject to the relevant approval procedures and requirements as stated under the existing PRC regulatory regime. In addition, to permit such foreign invested banks to conduct various Renminbiretail or wholesale banking business activities, including, among others, receiving deposits, corporate financing, trade financing, financial activities, precious metal trading and security trading;

(d) to allow the establishment of restricted license banks[2](which is preliminarily estimated to be the banks holding certain Renminbi business licenses) where the relevant conditions are satisfied;

(e) to allow the establishment of foreign invested payment institutions, in which case, foreign investors may apply for and obtain a Payment Business Permit from the People's Bank by referring to the *Administrative Measures on Payment by Non-financial Institutions*;

(f) to allow certain Chinesebanks to carry out off-shore business activities;[3]

(g) to encourage the business of financial leasing and granting tax support;

(h) to generally allow overseas enterprises to participate in commodity futures trading and allow overseas futures exchanges to designate or establish warehouses for commodity futures; and

(i) to grant tax preferences to qualified enterprises set up in the FTZ.

For your convenient reference, we have set out in Appendix I attached hereto abrief comparison between the new rules which may be implemented in the financial field of the FTZ and the existing rules.

**Simplify Certain Approval Procedures for Foreign Investments**

In contrast to the existing approval system regarding onshore investments by foreign investors, the FTZ will adopt an administration model called "Negative List Administration". This "Negative List Administration" will be "permitted as long as the relevant laws and regulations have no explicit prohibitions". Specifically, within the FTZ, except for those key industries which are explicitly restricted/prohibited from foreign investment, foreign investments in other industries will not be subject to any approval and only filing is necessary. Therefore, the FTZ will implement an administrative model of "approval + filing" in regard to foreign investment access. We have listed below the approval items which may be suspended in the FTZ:

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[2] A "Restricted License Bank" is designed to make certain companies (i.e., small loan companies) which have a consolidated foundation but whose business scale is not so big as banks to be qualified to apply to become a restricted license bank (such banks may receive deposits in a certain amount and without depositing term limitations) or a deposit taking company. Such companies may receive deposits from local residents or carry out the business of wholesale and investment banking.

[3] Offshore Business" refers to the financial activities of banks receiving funds from non-residents and providing services for non-residents.

| # | Suspended Approval Item | Main Content | Existing Rules |
|---|---|---|---|
| 1. | Examination and approval on foreign investment projects conducted by the National Development and Reform Commission (the "NDRC") or its local counterparts | In the FTZ, based on the principle of "same treatment on Domestic and Foreign investment projects", only projects (domestic and foreign) which contain a fixed assets investment will be required to make filings with the NDRC or its local counterparts, and some administrative approval items will be suspended | Various foreign investment projects (including the establishment and alteration of FIEs and foreign merger & acquisitions) shall be subject to the project approval of the NDRC or its local counterparts[4] |
| 2. | Approval on the establishment, alteration and termination of an FIE | According to the Decision, the following approval items regarding FIEs (including wholly foreign owned enterprises ("WFOEs"), Sino-foreign equity joint ventures ("EJVs") or Sino-foreign contractual joint ventures ("CJVs") will be replaced by filing:[5]<br>• the establishment, division, merger, alteration, and determination and extension of the operation term of the WFOEs;<br>• the establishment, extension of duration and dissolution of EJVs;<br>• the establishment of and major changes to the agreement, contract or articles of association of the CJVs, transfer of rights and obligations under the CJVs' contract, entrusted operation and extension of duration | Establishment, alteration and termination of an FIE shall be subject to the approval of the competent approval authorities |
| 3. | Approval on outbound investment | Outbound investment by domestic enterprises will be just subject to a filing requirement | When conducting outbound investments, a domestic enterprise should firstly obtain the approval from the NDRC or its local counterparts and the competent PRC approval authorities. Such enterprise will then need to obtain a foreign exchange registration certificate of its outbound direct investment issued by the competent foreign exchange authority. Upon obtaining all of the above-mentioned approvals and certificates, such enterprise may carry out the procedure of remittance of funds in the appointed foreign exchange banks |

[4] In practice, under certain circumstances, some foreign investment projects do not need to apply for project approval from the NDRC or its local counterparts.

[5] The Decision will come into effect on October 1, 2013. We understand that the State Council will then adjust and promulgate a series of regulations regarding the establishment, alteration and termination of FIEs based on the principles established by the Decision.

**Expand Areas for Foreign Investment and Lower Threshold for Market Access**

As previously mentioned, after the implementation of the "Negative List", any foreign investment project in the FTZ which is beyond such list may not be subject to the relevant existing restrictions on market access for foreign investment.

According to published information, we noted that the access threshold or restrictions on the qualifications, shareholding, business scope, etc. for foreign investment may be lowered or removed in the following areas:

| # | Industry | Existing Rules | Proposed Rules in FTZ |
|---|---|---|---|
| 1. | Shipping | According to the relevant provisions stipulated in the *Administrative Rules on Foreign Investment in the International Shipping Industry*, upon the approval of the Ministry of Transportation and the Ministry of Commerce, foreign investors may make investments in the international shipping industry through the following forms:<br>• Establishment of EJVs or CJVs to operate in the business of international shipping, international shipping agencies, international shipping management, international shipping cargo handling, international shipping container stations and yards;<br>• Establishment of EJVs, CJVs or WFOEs to operate in the business of international shipping goods storage;<br>• Establishment of EJVs, CJVs or WFOEs to provide daily business services for ships operated or owned by the investors | Unless otherwise provided in the "Negative List", foreign investors may freely make investments in such areas without being subject to the relevant approvals |
| 2. | Credit Survey Firm | According to the *Catalogue for the Guidance of Foreign Investment Industries* (the "Catalogue"), the operation of credit survey and rating services companies falls into the "restricted" category for foreign investment | |
| 3. | Performance Brokerage | According to the Catalogue, the operation of performance brokerage companies falls into "restricted" category for foreign investment, which should be majority controlled by the Chinese parties | |
| 4. | Entertainment Venue | According to the Catalogue, the operation of entertainment venues falls into the "restricted" category for foreign investment, which should be limited to the form of EJVs or CJVs | |
| 5. | Education and Training | According to the Catalogue, although the operation of higher education institutions belongs to the "encouraged" category for foreign investment, it should be limited to the form of EJVs or CJVs; Ordinary high-school educational institutions falls into the "restricted" category for foreign investment which should limited to the form of CJVs; The operation of compulsory education institutions, special area education institutions such as military, police, political and party schools fall into the "prohibited" category for foreign investment.<br>In practice, most foreign investors make domestic investments through the establishment of Sino-foreign cooperative education institutions, running a Sino-foreign cooperative school project or vocational training project, or through the structure of a Viable Interest Entity | |

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|---|---|---|---|
| 6. | Trade and Auction of Cultural Relics | According to the relevant provisions of the current “Protection Laws on Cultural Relics”, the establishment of foreign invested cultural relic stores or auction enterprises is generally prohibited | Qualified foreign investors will be allowed to set up FIEs to be engaged in the business of auctioning cultural relics in the FTZ, and qualification application submitted by such FIEs, and the examination and verification on the auction subjects will be merged into the existing administrative system |
| 7. | Value-added Telecommunications Services | According to the relevant provisions of the *Administrative Rules on Foreign invested Tele-enterprises*, contribution percentages made by foreign investors in a foreign investment telecommunications enterprise which operates value-added telecommunications services (including wireless paging businesses within the basic telecommunications) shall not exceed 50% and no foreign investment is allowed in the area of internet information services | Provided that the safety of internet information is ensured, foreign investors are permitted to set up WFOEs or foreign investors controlled enterprises to operate part of value-added telecommunications services in specific forms |
| 8. | Job Intermediary Agency | According to the *Interim Provisions Concerning the Management of Chinese-foreign Joint Job Intermediary Agencies*, a Sino-foreign job intermediary agency shall have a registered capital of no less than US$300,000 of which, the shareholding percentage of foreign investors shall be no less than 25% and no more than 49%, while the shareholding percentage of Chinese investors shall be no less than 51% | For any joint venture job intermediary agency established in the FTZ, the minimum registered capital shall be US$125,000, and the shareholding percentage of foreign investors shall not exceed 70% (previously, only Hong Kong and Macao service providers could enjoy such policy) |
| 9. | Outbound Tourism | According to the *Interim Measures for the Supervision and Administration of the Pilot Operation of the Outbound Tourism Business by Sino-foreign Joint Venture Travel Agencies*, the quantity of Sino-foreign joint venture travel agencies participating in the pilot programs of the outbound tourism business is under strict control. | Any Sino-foreign joint venture travel agency in the FTZ which fulfills the relevant requirements may participate in the outbound (Taiwan excluded) tourism business |

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| 10. | Construction Project | According to the *Rules for the Administration of Foreign-funded Construction Engineering Design Enterprises*, foreign investors and foreign service providers of a foreign-funded construction engineering design enterprise shall be an enterprise, a certified architect or an certified engineer that are engaged in construction engineering design in their respective countries<br><br>According to the *Rules for the Administration of Foreign-funded Construction Enterprises*, a construction enterprise in the form of a WFOE is only allowed to contract, within its scope of qualifications, a joint construction project in which foreign investment occupies no less than 50%, and a Sino-foreign joint construction project in which foreign investment occupies less than 50% but which cannot be independently implemented by any Chinese construction enterprise due to technical difficulties and has been approved by the provincial construction governmental authorities | Requirements for investors may be revoked when a foreign-funded construction engineering design enterprise (engineering investigations excluded) first applies for qualifications.<br><br>When contracting a joint construction project, a construction enterprise in the form of a WFOE may be no longer subject to the restrictions on the investment ratio of the Chinese and foreign parties (previously, only Hong Kong and Macao service providers could enjoy such policy)<br><br>The above mentioned policies only apply to enterprises registered in the FTZ when they provide construction project services within Shanghai |

**Appendix I General Comparison between the New FTZ Rules and Existing Rules in the Financial Field**

| # | FTZ's Proposed New Rules | Existing Rules | Han Kun Notes |
|---|---|---|---|
| 1. | Liberalize the interest rates in the financial market of the FTZ and implement marketization pricing on the price of financial institutions' assets | According to the *Notice on Further Promoting the Reform of Interest Rate Marketization* issued by the People's Bank, as of July 20, 2013, the controls over the interest rates of financial institution loans will be completely released, and the financial institutions will reasonably determine the interest rates of loans based on the supply and demand of the market | Based on the existing policy, the "cap on deposit interest rates" still exists and there may be future breakthroughs in the FTZ |
| 2. | Allow foreign invested banks to set up subsidiaries or branches and establish Sino-foreign investment banks with domestic banks | According to the *PRC Administrative Regulations on Foreign Investment Banks* and its implementing rules, it is generally allowed to set up foreign invested banks and Sino-foreign invested banks in China provided that certain requirements stipulated in these regulations and rules are satisfied, which include, among others, the minimum amount of registered capital for these banks (RMB1 billion or in a freely convertible currency equivalent to that amount) and satisfying the operation qualifications, financial conditions, and investment experiences within China of the investors | We understand that if the establishment of foreign invested banks and Sino-foreign invested banks is explicitly excluded from the "Negative List", then their establishment and alteration may be no longer subject to the pre-conditions and approval requirements stipulated in the *PRC Administrative Regulations on Foreign Investment Banks* and its implementation rules as well as the relevant laws and regulations |
| 3. | Free convertibility of Renminbi capital accounts and Renminbi cross-border pilot programs | Currently, account convertibility has been realized conditionally in Mainland China. However, the convertibility of Renminbi under capital accounts has yet to be realized. Similarly, the State Council has made its official decision dated April 8, 2009 to set up pilot programs regarding the settlement of Renminbi for cross border trade in Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan<br><br>Therefore, current Renminbi cross-border settlements under trade items are considered common. There is also a limited practice of Renminbi cross-border settlements under part of capital accounts, but generally speaking, China has not realized Renminbi cross-border settlements under the capital accounts | Once the free convertibility of Renminbi under capital accounts is realized, it will greatly facilitate the capital exchange for foreign investors, which will further encourage foreign investors to make more investments in China |
| 4. | Allow the establishment of restricted license banks | Currently there are no regulations on the establishment of restricted license banks in China, nor there is any restricted | Using the experience of Hong Kong as a reference, the "Restricted License Bank" is designed to make those companies (i.e., |

| # | FTZ's Proposed New Rules | Existing Rules | Han Kun Notes |
|---|---|---|---|
| | | license bank established in China | small loan companies) which have a consolidated foundation but whose business scale is not so big as banks to be qualified to apply to become a restricted license bank (such banks may receive deposits in a certain amount and without deposit term limitations) or a deposit taking company; so that such companies may receive deposits from local residents or carry out the business of wholesale and investment banking. There has been some discussion and exploration regarding this aspect in China, but currently no substantial reform has occurred. |
| 5. | Allow the establishment of foreign invested payment institutions | Although the *Administrative Measures for the Payment by Non-financial Institutions* has not explicitly prohibited or restricted foreign investment in the payment industry, since these Administrative Measures were issued, only two WFOEs, (i.e., Edenred China and Shanghai Sodexhopass) have obtained permits to operate in the business of the "issuance and acceptance of prepaid cards", while the other two main business activities within the payment field (i.e., payments through networks and bankcard acquisitions) are still not permitted for FIEs to operate in. Therefore, the current scope of the payment business open to FIEs is still very limited | Provided that the payment business is explicitly excluded from the "Negative List", the relevant approvals will no longer be required and any FIE which fulfills the relevant requirements may directly make filings to operate in the relevant payment business |
| 6. | Allow certain domestic banks to carry out off-shore business activities | The pilot banks, China Merchants Bank, Shenzhen Development Bank, Shanghai Pudong Development Bank and Bank of Communications have had some practical experience in the area of offshore business, whose main operation scope includes foreign exchange deposits and loans, international settlements, issuance of transferable deposit certificates with large amounts, and foreign exchange guarantees. | Since the offshore business itself is still under exploration and development, the FTZ will mainly summarize the existing practical experiences and highlight the policy requirements in order to promote domestic banks to carry out off-shore business activities |
| 7. | Encourage the business of financial leasing and granting tax support; no requirement on the minimum amount | Currently, there is still no systematic legal supervision on Chinese financial leasing companies which are non-financial institutions, and this contributes to a difficulty for such financial | According to the relevant reports, the State Administration of Taxation raised its conservative opinions regarding tax support |

| # | FTZ's Proposed New Rules | Existing Rules | Han Kun Notes |
|---|---|---|---|
| | of registered capital for financial leasing companies to set up single plane or single ship subsidiaries; permit financial leasing companies to concurrently operate in the business of commercial factoring which is related to its main business | leasing companies to enjoy tax preferences. In addition, the financial leasing business is still in the start-up phase, thus the relevant taxes and financial support have yet to be put in place, which is one of the most important factors impeding the development of the financial leasing business<br><br>According to the *Notice on the Relevant Issues on the Establishment of Project Companies within the Bonded Area by the Financial Leasing Companies to Operate the Business of Financial Leasing* issued by the China Banking Regulatory Commission (the "CBRC"), those financial leasing companies which are under the supervision of the CBRC may set up project subsidiaries in the form of single plane or single ship companies, but only within the bonded area, while financial leasing companies which are under the supervision of the Ministry of Commerce are also allowed to operate a project subsidiary within a bonded area. In practice, despite how there is no regulatory requirement, there is still a requirement on the minimum amount of registered capital for such single plane or single ship company, ranging from RMB100,000 to RMB300,000<br><br>According to the *Notice on Work related to the Pilot Project of Commercial Factoring* issued by the Ministry of Commerce, investors shall set up an independent company to operate in the business of commercial factoring and no mixed operation is allowed. One of the commercial factoring company shall not conduct the financial activities such as receiving deposits and issuing loans, nor shall it be specialized in or be authorized to operate in the collection business. From a legal perspective, financial leasing companies are at present not allowed to concurrently operate in the business of commercial factoring | for the financial leasing business. Therefore, it is doubtful whether such policy may exist in the final plan |
| 8. | Allow overseas enterprises to participate in commodity futures trading and allow overseas futures exchanges to appoint or establish transaction warehouses for | According to the *Administrative Regulations on Futures Transactions*, only qualified overseas institutions may participate in futures transactions of specific commodities. Currently, Qualified Foreign Institutional Investors may only be involved in a very limited scope of future transactions such as the | According to the relevant report, the CSRC raised its conservative opinions on this policy. Therefore, it is doubtful whether such policy may exist in the final plan |

| # | FTZ's Proposed New Rules | Existing Rules | Han Kun Notes |
|---|---|---|---|
| | commodity futures | transactions of crude oil futures and stock index futures<br><br>According to the *Notice on Further Strengthening the Supervision on the Physical Delivery of Commodity Futures* issued by the China Securities Regulatory Commission (the "CSRC") in 2008, it is prohibited for overseas futures exchanges and other overseas institutions to appoint or establish transaction warehouses for domestic commodity futures or conduct other activities related to the delivery of commodity futures before the issuance of the relevant laws and regulations on the openness of China's futures market. At present, there have been no transaction warehouses for commodity futures set up by overseas futures exchanges | |
| 9. | Project enterprises which carry out overseas equity investments in the FTZ will be granted tax preferences, i.e., the enterprise income tax ("EIT") rate for such enterprises and the proceeds received from their off-shore business activities will be 15% | According to the *Enterprises Income Tax Law*, except for certain enterprises (small low-profit enterprises with an EIT rate of 20% and high-tech enterprises with an EIT rate of 15%), the applicable EIT rate shall be 25% | |

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# Legal Updates

## 1. New Amendments to the PRC Trademark Law (Authors: Estella CHEN, Vivian WANG)

On August 30, 2013, the 4th session of the Standing Committee of the twelfth National People's Congress enacted the *Decision on Revising the PRC Trademark Law* (the "**Revising Decision**"), which will take effect on May 1, 2014. The details of the Amendments are as follows:

### 1) Major Revisions on Trademark Opposition

The Revising Decision made significant amendments regarding the trademark opposition system, which can be embodied in the following four aspects:

#### (a) Limit the Grounds for an Opposition

The current Trademark Law has not limited the grounds for raising an opposition. However, the Revising Decision clearly limits the grounds for an opposition and categorizes the grounds into two types: (i) where the application for trademark registration violates the provisions of paragraph 1 and 2 of Article 13, Article 15, paragraph 1 of Article 16, Article 30, Article 31 and Article 32 of the Trademark Law[6]; and (ii) where the application for trademark registration violates the provisions of Article 10 and Article 12.[7]

#### (b) Specify the Parties that can File an Opposition

Regarding the above-mentioned (i) category where the grounds for an opposition are infringements on pre-existing rights, the party that can file an opposition has no longer been "anyone", but be specified as "the owner of a pre-existing right or any interested party that believes the trademark registration application infringes its pre-existing right." Regarding the above-mentioned (ii) category where the grounds for an opposition are the signs shall not be used or registered as trademarks, the provision remained unchanged and anyone can file an opposition.

#### (c) Remove the Procedure that requires TRAB to conduct reexaminations on Trademark Opposition

The Revising Decision states that the Trademark Office shall, after the examination of a trademark registration opposition, directly decide whether to approve the registration or not. The Revising Decision provides different resolutions for the opponent and the respondent who is dissatisfied with the ruling on the trademark opposition. Where the Trademark Office believes that an opposition is

[6] i.e., where the application infringes on pre-existing rights such as the well-known trademark right, right of prior users and principals, geographical indication certification trademark right and pre-registered trademark right.

[7] Where signs should not be used or registered as trademarks.

untenable and approves the registration, the opponent cannot apply for reexamination and can only make a request to declare such registered trademark invalid. Where the Trademark Office believes that an opposition is tenable and disapproves the registration, the respondent may file an application for reexamination on the disapproval of registration with the Trademark Review and Adjudication Board ("**TRAB**"). Respondents who are dissatisfied with the decision made by TRAB may file an administrative lawsuit with a people's court.

Since the Revising Decision cancels the procedure that requires TRAB to conduct a reexamination on the trademark opposition, we suggest that procedures such as evidence exchange and giving cross-examination opinions shall be added in the examination on the opposition of the Trademark Office. The purpose of this is to ensure that the Trademark Office can make a decision after fully understanding both parties' conditions. Otherwise, such provision that disallows a reexamination after ruling an opposition is untenable and approves the registration will seem too careless and unfavorable to the opponent, especially to the prior user and principal who does not apply for trademark registration in time.

#### (d) Stipulate the Period for Examination of Trademark Applications

As to the period for examination of an opposition, the Revising Decision clearly stipulates that the Trademark Office shall decide whether to approve a registration within 12 months after the expiration of the publication period. If an extension is needed due to special circumstances, a 6-month extension may be allowed upon approval from the State Administration for Industry and Commerce ("**SAIC**").

As to the period for the respondent to file an application for reexamination after the registration has been disapproved, the Revising Decision clearly stipulates that TRAB should carry out the reexamination ruling within 12 months after the receipt of application. If an extension is needed due to special circumstances, a 6-month extension may be allowed upon approval from SAIC.

We think that the above four revisions will reduce the number of trademark oppositions in the future to a relatively great extent, shorten the examination time period of an opposed trademark, and lessen the number of trademark opposition cases aimed at preventing or delaying the registration of similar trademarks, which has been often used as a trademark protection strategy.

### 2) Strengthen Protection on Prior Users

#### (a) Strengthen Protection on Prior Users in the Opposition Procedure

Under the current Trademark Law, if a prior trademark user cites the provision of Article 15[8] as the opposition grounds, the prior user will need to prove the existence of an agency contract or representation contract between the two parties in order to prevent the other party's registration. If

[8] Where an agent or representative in its own name registers a trademark of one of its principals without authorization, and the principal opposes the registration, the trademark shall not be registered.

a prior trademark user cites the provision of Article 31[9] as the opposition grounds, the prior user will need to prove that the prior trademark has a certain reputation in order to prevent the other party's registration.

The Revising Decision clearly states that if a prior user can prove that the applicant has a contractual relationship other than an agency contract or representation contract, and a business relationship or any other relationship that clearly verifies the awareness of the existence of the trademark, the registration for such trademark shall be prevented. According to the Revising Decision, the prior user does not need to prove the existence of an agency relationship or representation relationship, or the reputation of the prior trademark. However, in practice it is not clear how the Trademark Office will operate to identify the applicant's awareness of the existence of the trademark due to any other relationship between the applicant and the prior user.

**(b) Clarify Prior Trademark Use Rights**

The Revising Decision also sheds some light on the prior trademark use rights system. Prior to the application of the trademark registrant, if another party has used an identical or similar trademark, which has produced a certain influence, to the registered one on the same or similar goods, the owner of the registered trademark is not entitled to prohibit such user from continuing to use such trademark within the original scope of use. However, it can require such user to add appropriate signs to distinguish the trademark.

Such provision is intended to compensate for some insufficiency of the principles for trademark registration and prior application, protect fair competition, and balance the interests between the trademark registrant and the prior user. However, coming up with a method that defines the certain influence, the original scope of prior use, ways of use, geographical restrictions and transfer of prior use rights still needs to be further considered in the follow-up provision and practice.

**3) Strengthen Protection on Exclusive Rights to use Trademarks**

**(a) Introduce Punitive Damages**

The Revising Decision adopts the internationally accepted system of punitive damages for malicious infringement. For ordinary trademark infringement, the amount of damages shall be determined according to the actual losses of the right owner caused by the infringement or the benefits gained by the infringer from the infringement, or may be determined according to the royalties for such registered trademark. Where the infringement on the exclusive right to use a trademark is committed maliciously and involves serious circumstances, the amount of damages may be more than the amount determined according to the above methods, but not more than three times of the above amount. The amount that exceeds the actual losses represents a type of punitive damages.

[9] An application for trademark registration shall not prejudice any pre-existing right of others. It is prohibited to forestall the registration, through any improper means, of a trademark that is already used by another party and has produced a certain influence.

We believe that the establishment of the system of punitive damages will play an important role both in punishing the infringer and preventing potential infringers from engaging in similar illegal actions, thereby enhancing the determination and activities of the trademark right owners to protect their rights.

**(b) Significantly increase the amount of Statutory Damages**

The Amendments increase the amount of statutory damages. The maximum amount of statutory damages that a people's court may determine has been increased from RMB 500,000 to RMB 3,000,000. In the event that the actual losses of the right owner are caused by the infringement, the benefits gained by the infringer from the infringement and the royalties for such registered trademark will be difficult to determine.

**(c) Relieve the Burden of Proof on Right Owners**

The Revising Decision relieves the burden of proof on right owners. In order to determine the amount of damages, if the right owner has made its endeavor to provide evidence, and the account books and materials related to the infringement are mainly possessed by the infringer, the people's court may order the infringer to provide such account books and materials related to the infringement. If the infringer fails to provide, or provides false account books and materials, the people's court may determine the amount of damages by referring to the claims made and the evidence provided by the right owner.

We believe that the above provision represents somewhat of a solution to making sure that right owners are properly compensated, and it is likely that the Revising Decision will evoke a wave of interest for right owners to protect their rights.

**4) Stipulate the Periods of Administrative Procedures for Trademark Examination**

The Revising Decision clearly stipulates the periods of administrative procedures for trademark examination for the first time, and the details are as follows:

**(a) Stipulate the Period of Trademark Registration, Trademark Opposition and Cancellation Application for the Trademark Office**

The Trademark Office shall complete the examination of trademark registration within 9 months upon the receipt of trademark registration application documents.

The Trademark Office shall decide, within 2 months upon the expiration of the publication period, whether to approve the registration where an opposition is filed against a trademark after its preliminary approval and publication. If an extension is needed due to special circumstances, a 6-month extension may be allowed upon approval from SAIC.

The Trademark Office shall decide, within 9 months upon the receipt of the application, whether to cancel a registered trademark. If an extension is needed due to special circumstances, a 3-month

extension may be allowed upon approval from SAIC.

**(b) Stipulate the Periods of Reexamination on Application Dismissal, Registration Cancellation, Registration Disapproval and Invalid Procedures for TRAB**

TRAB shall make the decision within 9 months upon the receipt of application for a reexamination to dismiss an application. If an extension is needed due to special circumstances, a 3-month extension may be allowed upon approval from SAIC.

The Trademark Office should make the decision, within 9 months upon the receipt of the application, made by the parties, for a reexamination to review the Trademark Office's decision regarding whether to cancel a trademark. If an extension is needed due to special circumstances, a 3-month extension may be allowed upon approval from SAIC.

TRAB shall make the decision, within 12 months upon the receipt of the application, made by the respondent, for a reexamination to review the Trademark Office's decision of disapproving a registration. If an extension is needed due to special circumstances, a 6-month extension may be allowed upon approval from SAIC.

TTAB shall make the decision, within 9 months upon the receipt of the application, made by the parties, for a reexamination to review the Trademark Office's decisions which declare the registered trademark invalid. If an extension is needed due to special circumstances, a 3-month extension may be allowed upon approval from SAIC. Where the application is made by any other entities or individuals in accordance with Article 44 of the Trademark Law, TRAB shall make a decision within 9 months upon the receipt of the application. If an extension is needed due to special circumstances, a 3-month extension may be allowed upon approval from SAIC.

Where the pre-existing rights owner and interested parties file an application to declare a registered trademark invalid in accordance with Article 44 of the Trademark Law, TRAB shall make a decision within 12 months upon the receipt of application. If an extension is needed due to special circumstances, a 6-month extension may be allowed upon approval from SAIC.

In comparison with the real periods for trademark examination in practice these years, the above periods provided by the Revising Decision are shorter to some extent.

We believe, that this represents a significant development for registrants as the Revising Decision clearly stipulates the periods for different stages in trademark administrative procedures for the first time. As a result, a specific timetable has been formed to determine whether a trademark can be successfully registered, and thus corporate strategies for trademark use and protection will be more accurate. Therefore, the function of the Trademark Law to protect registered trademarks will have a greater effect.

**5) Prohibit the use of Well-known Trademarks in Commercial Advertisements and clarify the Circumstances and Authorities for Well-known Trademarks' Recognition**

The Revising Decision prohibits the use of well-know trademarks in commercial advertisements and clarifies the circumstances and authorities for well-known trademarks' recognition.

**(a) Add the Prohibitive Provision and Penalty Provision for the use of Well-known Trademark Wording**

As to the use of well-known trademark wording, the Revising Decision clearly stipulates that "manufacturers and dealers should use well-known trademark wordings on their products, packages or containers; or in advertising, exhibition or other commercial activities. The Revising Decision also stipulates the corresponding penalty provision. If the said provision is violated, the local administrative department for industry and commerce can impose a fine of RMB 100,000. A well-known trademark under the Trademark Law will only be recognized factually when the mark needs to be protected as a well-known trademark in a specific case. As a result, a well-known trademark is not considered an honorable title. However, in practice, a lot of companies overuse and over-advertise well-known trademarks, which deviate from the original meaning of the well-known trademark under the Trademark Law. The purpose of the said provision of the Revising Decision is to prevent the over-advertisement of well-known trademarks by companies.

**(b) Clarify the Circumstances and Authorities for Well-known Trademarks' Recognition**

Before the promulgation of the Revising Decision, the regulations regarding the circumstances and the authorities for well-known trademarks' recognition can be sporadically found in the *Provision of the State Administration for Industry and Commerce on the Determination and Protection of Well-Known Trademarks and Interpretation of the Supreme People's Court on Several Issues on the Application of Law to the Trial of Cases of Civil Disputes over the Protection of Famous Trademarks*. The Revising Decision puts together these regulations in the Trademark Law.

**6) Strictly Regulate the Activities of Trademark Agencies**

**(a) Informing Obligation of Trademark Agencies**

The Revising Decision provides that if trademarks applied for registration by the principals are prohibited to register under the Trademark Law[10], the trademark agencies shall clearly inform the principals.

**(b) Strictly prohibit malicious agent activities by the trademark agencies**

Malicious agent activities strictly prohibited by the new law include: 1) where an agent or representative registers, in its own name, a trademark of one of its principals without authorization; 2) where the applicant has a contractual relationship other than an agency contract or representation contract, and a business relationship or any other relationship with others that clearly verifies the

[10] Where the signs should not be used or registered as trademarks in accordance with Article 10, Article 11 and Article 12.

awareness of the existence of the trademark, and then files an application to register an identical or similar trademark on the identical or similar goods as the unregistered mark used by others; 3) where an application for registration may prejudice the pre-existing rights of others or forestall the registration, through any improper means, of a trademark that is already used by another party and has produced a certain influence. If a trademark agency knows or should have known the above-mentioned circumstances, it should not accept the consignments

In addition, the Revising Decision clearly prohibits a trademark agency from filing an application to register any trademark other than a trademark for its own agency services.

**(c) The Penalty Provision for Trademark Agencies**

The Revising Decision imposes a fine of between RMB 10,000 to RMB 100,000 on trademark agencies, if their activities are in violation of the provisions as stated in Item (2) above, or if they engage in activities of transforming or counterfeiting legal documents, or using such false documents, seals and signatures. Furthermore, the person in charge or other directly responsible person shall be subject to an admonition or a fine of between RMB 5,000 to RMB 50,000, and even be subject to criminal liabilities if his acts constitute a criminal offense. If this is a serious case, the Trademark Office and TRAB may decide to suspend its trademark agent business and make a public announcement.

We believe, the above provisions stipulate a relatively high level of standards for agent capabilities and good faith in trademark agencies, which will have a strong deterrent and suppressing effect on the bad faith activities and malicious forestalling registration conducted by some trademark agencies.

**7) Revisions on Trademark Application**

**(a) Simplify Trademark Application Documents**

The Revising Decision provides that the applicant may file one application for registering the same trademark for the goods in several classes, thus changing the previous provision of “one application for one class” and simplifying the application documents and procedures. However, it is still not clear as to how to prepare application documents when filing one application for registering the same trademark for the goods in several classes. This needs be clarified in the follow-up provisions from SAIC.

**(b) Add Eligible Trademark Element for Registration**

The Revising Decision adds a new eligible trademark element for registration, providing that sound can be registered as a trademark.

**8) Other Major Revisions**

**(a) Add one more Condition to Apply for Canceling Registered Trademarks**

Where the use of a registered trademark has ceased for three consecutive years, anyone may apply to the Trademark Office for cancelling such registered trademark. In addition, the Revising Decision also provides that where a registered trademark has become the generic name of its designated goods, anyone may apply to the Trademark Office for cancelling such registered trademark.

**(b) Add a Situation of not being Liable for Compensation**

The Revising Decision adds the provision that if the owner of the exclusive right to use a registered trademark claims damages and the alleged infringer makes defenses on the grounds that the right owner fails to use the registered trademark, the people's court may require the right owner to provide evidence showing its actual use of such registered trademark within the previous three years. If such owner can neither prove its actual use of such registered trademark within the previous three years nor prove that it has suffered any other loss as a result of the infringement, the alleged infringer shall not be liable for compensation.

According to above provision, if the right owner does not use the registered trademark after registering, it may only prevent the infringer from using such trademark, rather than obtain compensation.

**(c) Relationship with PRC Anti-unfair Competition Law**

The Revising Decision provides that where a party uses another's well-known trademark or registered trademark as a trade name in its enterprise name that misleads the public and constitutes unfair competition, it shall be handled in accordance with the PRC Anti-unfair Competition Law.

## 2. Analysis on the Notice on Further Clarifying Issues relating to Mandatory Transfer of State-owned Shares of Financial Enterprises (Authors: Evan ZHANG, Sheldon CHEN)

On August 14, 2013, the Ministry of Finance of the PRC, the State-owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and the National Council for Social Security Fund jointly promulgated the *Notice on Further Clarifying Issues relating to the Mandatory Transfer of State-owned Shares of Financial Enterprises* (Cai Jin [2013] No. 78) ("**Circular 78**"), specifying the scope and procedures of the mandatory transfer of state-owned shares of financial enterprises. Based on the understanding of the *Measures on Enriching Social Security Fund by Transferring Some State-Owned Shares in the Domestic Securities Market* (Cai Qi [2009] No. 94) ("**Circular 94**") and the *Reply of the State-owned Assets Supervision and Administration Commission of the State Council on Issues concerning the Implementation of the "Interim Provisions on Administration of the Labeling of State-Owned Shareholders in Listed Companies"* (Guo Zi Ting Chan Quan [2008] No. 80) ("**Circular 80**"), we have provided below our analysis on the determination of state-owned shareholders in financial

enterprises and the mandatory transfer of state-owned shares ("**Mandatory Transfer**").

**General Introduction on the Determination of State-owned Shareholders**

Circular 94 stipulates the basic principle of Mandatory Transfers and specifies the scope of state-owned shareholders and state-owned asset regulatory authorities. According to Circular 94, the term "state-owned shareholders" refers to state-owned shareholders determined by the state-owned assets regulatory authorities, and the term "state-owned assets regulatory authorities" refers to: (1) specially established authorities responsible for fulfilling capital contribution functions on behalf of the State Council and relevant governments at or above the provincial level (including cities specifically designated in the state plan) and for supervising and administering state-owned assets of enterprises (the "**SASAC**"); and (2) financial authorities at all levels responsible for supervising and administering the state-owned assets of financial enterprises (the "**Financial Authorities**").

According to Circular 94, the state-owned assets of non-financial enterprises are under the supervision of the SASAC, and the state-owned assets of financial enterprises are under the supervision of the Financial Authorities. Therefore, the state-owned shareholders of non-financial enterprises and the state-owned shareholders of financial enterprises are respectively determined by the SASAC and Financial Authorities.

**Determination Standard for State-owned Shareholders of Non-financial Enterprises**

Circular 80 specifies that the state-owned shareholders of a listed company include the following: (1) government agencies, departments, institutions, wholly State-owned enterprises, limited liability companies, or joint stock limited companies whose investors are all wholly State-owned enterprises; (2) corporate enterprises in which the above-mentioned entities or enterprises exclusively hold over 50% of the shares; corporate enterprises in which the above-mentioned entities or enterprises aggregately hold over 50% of the shares, one of which is the first largest shareholder; (3) subsidiaries at all levels, in which the enterprises mentioned in item (2) hereof maintain an absolute control; and (4) affiliated entities or wholly-owned subsidiaries of all the above-mentioned entities or enterprises. According to Circular 80, standards under items (1) and (2) above shall only apply to corporate enterprises, in other words, limited partnerships shall not be subject to standards under items (1) and (2)[11], and standards under items (3) and (4) shall apply to all types of enterprises.

**Determination Standard for State-owned Shareholders of Financial Enterprises**

Prior to the implementation of Circular 78, The Financial Authorities did not implement any specific

[11] Shanghai New Alliance Investment Center, LLP, one of the shareholders of Xi'an Tongyuan Oil Technology Co., Ltd., was determined to fall within standard under item (2), and is therefore considered as a state-owned shareholder.

regulations regarding the Mandatory Transfer in financial enterprises. In practice, the determination standard for the state-owned shareholders of financial enterprises refers to Circular 80.

According to Circular 78, where a company invested by financial enterprises achieves an IPO, the equity investment fund of which is from a corporate private equity fund ("**PE Fund**") set up by such financial enterprises, Financial Authorities shall distinguish between the nominal investor and actual investor based on the principle of substance over legal form. Specifically, if the total equity interests of the PE Fund held by the actual state-owned investor exceeds 50%, the PE Fund (the total equity interest reaches 100%) or its actual state-owned investor (the equity interest exceeds 50% but is below 100%) shall perform the state-owned share transfer obligation in accordance with Circular 94. We understand that the aforementioned requirements only apply to corporate private equity funds, and Circular 78 has not clarified whether private equity funds with limited partnerships shall be subject to Circular 78 or Circular 80.

Since Mandatory Transfer policies have material impacts on private equity funds with limited partnerships in which state-owned enterprises invest, it is necessary to clarify the mandatory transfer standards. We will continue to pay close attention to regulations relating to mandatory transfers and will keep you informed of these updates.

## Important Announcement

This Newsletter has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

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